Debt Obligations

Under the direction of the Chief Financial Officer, with attention to current economic conditions and funding needs, the City executes debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes debt service payments. Debt is an equitable means of financing projects and represents an important component of the City's Five-Year Financial Outlook and the Water and Metropolitan Wastewater Departments' capital planning for meeting the City's infrastructure needs.

In addition to its current outstanding debt obligations, the Five-Year Financial Outlook identifies debt financing as a funding source to meet various General Fund capital needs. Approximately $102 million is expected to be financed by the end of Fiscal Year 2008 to meet various General Fund deferred maintenance needs for Fiscal Years 2008 and 2009. Additionally, approximately $370 million is expected to be debt financed to meet deferred maintenance needs over Fiscal Years 2010 through 2013.

The City also expects to debt finance approximately 80 percent of its capital needs related to the City's Water and Wastewater Funds. An estimated $255 million for the Wastewater System and $308 million for the City's Water System for new capital needs is expected to be debt financed through Fiscal Year 2010. In addition to debt financing capital needs, the City anticipates to fund the pension system in the amount of $50 to $60 million by leveraging certain employee offset savings in Fiscal Year 2008.

City of San Diego's existing long term debt obligations[1]:

Projected Outstanding Principal as of June 30, 2008

- General Obligation Bonds: $8.6 million
- General Fund backed Lease-Revenue Obligations: $453.6 million
- Water and Wastewater System Obligations: $1,856.3 million

Fiscal Year 2009 Projected Debt Service

- General Obligation Bonds: $2.8 million
- General Fund backed Lease-Revenue Obligations: $43.0 million
- Water and Wastewater System Obligations: $134.5 million

1 Does not include debt obligations of City Agencies (Redevelopment Agency and Housing Authority) and Special Assessment Districts.

Debt Obligations

City of San Diego's Bond Ratings

General Obligation Bond ratings as of March 2008

- Moody's Investors Service: A3 Negative Outlook
- Fitch Ratings: BBB+ Rating Watch Positive
- Standard & Poor's: Suspended, Negative Credit Watch

Under the California Constitution, the City may issue General Obligation Bonds subject to the approval of two-thirds of those voting on the bond proposition. General Obligation Bonds represent an indebtedness of the City secured by its full faith and credit. An ad valorem (value-based) tax on real property is levied to pay principal and interest on General Obligation Bonds.

Lease Revenue Bonds and Certificates of Participation are lease obligations secured by an installment sale agreement or by a lease-back arrangement with a public entity, where the general operating revenues are pledged to pay the lease payments, and in turn are used to pay debt service on the bonds or Certificates of Participation. These obligations do not constitute indebtedness under the State constitutional debt limitation and, therefore, are not subject to voter approval. Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. The governmental lessee is obligated to place in its annual budget the rentals that are due and payable during each fiscal year the lessee has use of the leased property.

Revenue Bonds are payable solely from net or gross non-ad valorem tax revenues derived from General Fund revenues, tax increment revenues, rates or tolls, fees, charges or rents paid by users of the facility constructed with the proceeds of the bond issue.

Table 1 summarizes the City's projected outstanding long term bond obligations as of June 30, 2008, and the projected debt/lease payment for each outstanding issuance for Fiscal Year 2009.

TABLE 1 – SUMMARY OF DEBT OBLIGATIONS

		Projected Principal Outstanding 6/30/2008	Projected FY 2009 Debt/Lease Payment	Final Maturity	Primary Funding Source
GENERAL OBLIGATION BONDS					
1991	San Diego General Obligation Bonds (Public Safety Communications Project)	$8,170,000	$2,332,273	FY 2012	Property Tax
1994	San Diego Open Space Facilities District No. 1 Refunding Series	$410,000	$434,600	FY 2009	Franchise Fees
	Subtotal General Obligation Bonds	**$8,580,000**	**$2,766,873**		
GENERAL FUND BACKED LEASE-REVENUE OBLIGATIONS					
Certificates of Participation					
1996A	Certificates of Participation Balboa Park/ Mission Bay Park Improvements Program	$9,760,000	$3,529,135	FY 2011	Transient Occupancy Tax
1996B	Refunding Certificates of Participation Balboa Park/Mission Bay Park Improvements Program	$8,445,000	$877,130	FY 2022	Transient Occupancy Tax
2003	1993 Balboa Park/Mission Bay Park Improvements Program Refunding Certificates of Participation	$10,490,000	$2,156,739	FY 2024 (1)	Transient Occupancy Tax
Lease Revenue Bonds					
1994	City/MTDB Authority Refunding - Bayside Trolley Extension	$5,390,000	$2,925,813	FY 2010	Transient Occupancy Tax
1996	Qualcomm (Jack Murphy) Stadium	$57,775,000	$5,769,853	FY 2027	Stadium Revenues & Transient Occupancy Tax
1998	Convention Center Expansion Authority	$173,355,000	$13,698,438	FY 2028	Transient Occupancy Tax & Port Authority Contribution
2002B	Fire and Life Safety Facilities Project	$22,805,000	$1,611,208	FY 2032	Safety Sales Tax
2003	1993 City/MTDB Authority Refunding - Old Town Trolley Extension	$12,775,000	$1,151,224	FY 2023	Transient Occupancy Tax
2007A	Ballpark Refunding Bonds	$152,765,000	$11,314,500	FY 2032	Transient Occupancy Tax & Centre City Development Corporation (6)
Subtotal General Fund Backed Lease-Revenue Obligations		**$453,560,000**	**$43,034,039**		
TOTAL GENERAL FUND OBLIGATIONS		**$462,140,000**	**$45,800,912**		
WASTEWATER AND WATER SYSTEM OBLIGATIONS (2)					
Wastewater System Obligations					
1993	Sewer Revenue Bonds	$167,955,000	$16,319,000	FY 2023	Net Wastewater System Revenues
1995	Sewer Revenue Bonds	$265,540,000	$23,585,016	FY 2025	Net Wastewater System Revenues
1997	Sewer Revenue Bonds	$196,800,000	$16,636,723	FY 2027	Net Wastewater System Revenues
1999	Sewer Revenue Bonds	$263,400,000	$20,514,898	FY 2029	Net Wastewater System Revenues
2007	Sewer Revenue Notes (Short Term Private Placement) (3)	$223,830,000	$11,191,500	FY 2009	Net Wastewater System Revenues
Water System Obligations					
1998	Water Certificates of Undivided Interest	$254,075,000	$21,353,503	FY 2028	Net Water System Revenues
2002	Subordinated Water Revenue Bonds	$277,675,000	$18,036,568	FY 2032	Net Water System Revenues
2007	Subordinated Water Revenue Notes (Private Placement) (4)	$57,000,000	$2,307,772	FY 2009	Net Water System Revenues
2008	Subordinated Water Revenue Notes (Private Placement) (5)	$150,000,000	$4,551,000	FY 2010	Net Water System Revenues
TOTAL WATER AND WASTEWATER SYSTEM OBLIGATIONS		**$1,856,275,000**	**$134,495,980**		

(1) The 2003 Balboa Park/Mission Bay Park Refunding Series consists of 2 underlying leases - (a) The North Course Torrey Pines lease (terminates in FY 2009); and (b) The House of Charm lease (terminates in FY 2024).
(2) In addition to the debt obligations, the Water and Wastewater Systems have outstanding State Revolving Fund (SRF) loan obligations. As of 6/30/08, principal outstanding in Water SRF loans is projected at $19.8 million, and principal outstanding in Wastewater SRF loans is projected at $87.9 million.
(3) Interest only payments; principal due 5/15/2009.
(4) Interest only payments; principal due 1/30/09.
(5) Interest only payments; principal due 8/29/09.
(6) $5 million contributed by the Centre City Development Corporation for Fiscal Year 2009.

Debt Obligations

In addition to long-term debt obligations, the City annually issues Short-Term Tax and Revenue Anticipation Notes (TRAN) in June to meet General Fund cash flow needs for the following fiscal year in anticipation of the receipt of property tax revenues later in the fiscal year. In June 2007, the City Council authorized a privately placed Note Purchase Agreement with Bank of America in an amount not-to-exceed $130 million to meet the cash flow needs for Fiscal Year 2008. Pursuant to the actual cash flow needs, the City borrowed $116 million on July 2, 2007 on a 13-month term. The City will repay the Fiscal Year 2008 TRAN out of current year revenues, 100% of which will be set aside by May 2008, and repaid at maturity (August 1, 2008). The City anticipates the issuance of a TRAN in June 2008 to meet the cash flow needs for Fiscal Year 2009. The amount to be borrowed and the associated terms are yet to be determined.

The City's **Equipment and Vehicle Financing Program** provides a mechanism for the short-term lease purchases of essential equipment in addition to pay-as-you-go funding. The lease purchases are typically over a three- to seven-year term.

State Revolving Fund (SRF) Loans are a low interest loan program for the construction of water and wastewater infrastructure projects offered by the State of California. Generally, these loans are low cost interest loans over a 20-year term. The terms of the loans differ somewhat between Water and Wastewater Enterprises. Currently, Wastewater has 11 outstanding SRF loans; these loans require the department to contribute 16.7 percent of the loan amount and receive 83.3 percent in loan proceeds from the State. Given the Enterprise pays back 100 percent of the loan, the effective interest rate on the loan is calculated at approximately 2 percent. The Water Enterprise currently has one outstanding loan with an effective interest rate of 2.5 percent. No department contribution on the loan amount was required.

Periodically, the City of San Diego Redevelopment Agency, Special Assessment or Community Facilities Districts, and the San Diego Housing Commission issue long-term bond obligations. The State Redevelopment Law gives the City of San Diego Redevelopment Agency, administered by the City's Redevelopment Division, the Centre City Development Corporation (CCDC), and the Southeastern Economic Development Corporation (SEDC), the authority to issue Tax Allocation Bonds as a means for financing redevelopment projects. The **Tax Allocation Bonds** are secured by allocation of tax increment revenues collected within a redevelopment project area. The bonds are special obligations of the Redevelopment Agency and are not a debt of the City, the State, or any of their political subdivisions other than the Redevelopment Agency.

In addition to the long-term bond issuances, the City and the City of San Diego Redevelopment Agency have outstanding **Housing and Urban Development** loan obligations to be repaid from the future Community Development Block Grant entitlements and other sources of revenues.

Under various sections of State law, the City may establish **Special Assessment or Community Facilities** (Mello-Roos) **Districts** and issue limited obligation bonds to finance infrastructure facilities and other public improvements necessary to facilitate development of the properties within each district. The bonds are secured solely by the properties in the district, and are not personal obligations of the property owners. The bonds are repaid through revenues generated by the annual levy of special assessments or special taxes on the benefiting properties.

The **San Diego Housing Commission's Multifamily Bond Program** administers multifamily tax-exempt financing for various projects. By utilizing the tax exempt interest income earned from municipal bonds, the Multifamily Bond Program offers below market financing to developers of multi-family rental projects that set aside a portion of the units in their projects as affordable housing. Activities eligible for financing include new construction, acquisition, and rehabilitation of projects located in the City. The bonds do not constitute a debt or liability of the City, the Housing Authority, or the Housing Commission. The security for bond repayment is limited to specific private revenue sources, such as project revenues, guaranteed by the credit provider, or the value of the projects themselves. The program is self-supporting and the developers are responsible for paying the costs associated with each financing agreement.